

SUMMARY ANALYSIS OF AMENDED BILL

Author: Speier Analyst: Nicole Kwon Bill Number: SB 30
 Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: April 4, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Qualified Tuition Program Deduction

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced December 9, 2004.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- _____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- _____ FURTHER AMENDMENTS NECESSARY.
- _____ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 9, 2004, STILL APPLIES.
- _____ OTHER – See comments below.

SUMMARY

This bill would allow a deduction for contributions made by a qualified taxpayer to a qualified tuition program.

SUMMARY OF AMENDMENTS

The April 4, 2005, amendments made the following changes to the bill:

- Expanded the bill's deduction provision to include all qualified tuition programs under Internal Revenue Code section 529.
- Changed the deduction to a full "below-the line" itemized deduction, not subject to the 2% floor on certain miscellaneous itemized deductions.
- Set a limit on the amount of contributions eligible for the deduction at \$3,000/\$6,000 (single/married filing jointly or head of household) per taxable year.
- Eliminated the requirement that a trust withhold an amount of a refund from nonresidents of California in the event that any portion of the contribution made by a taxpayer to a trust is refunded back to the taxpayer.

Board Position:

_____ S _____ NA _____ NP
 _____ SA _____ O _____ NAR
 _____ N _____ OUA ☒ PENDING

Department Director

Date

Brian Putler

4/12/05

The April 4, 2005, amendments resolved the implementation and technical concerns identified in the department's analysis of the bill as introduced December 9, 2004. A revised revenue estimate is included below. Except for the discussion in this analysis, the remainder of the department's analysis of the bill as introduced on December 9, 2004, still applies.

POSITION

Pending.

ECONOMIC IMPACT

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of SB 30 As Amended April 4, 2005 [\$ In Millions]		
2005-06	2006-07	2007-08
-\$25	-\$35	-\$50

Tax Revenue Discussion

The revenue impact of the bill would be determined by the amount of contributions to qualified tuition programs deducted on tax returns each year and the marginal tax rate of qualified taxpayers reporting such deductions.

The April 4, 2005, amendment expands the proposed deduction from contributions to just the Golden State Scholarshare Trust to all qualified tuition programs under Internal Revenue Code section 529, and no longer subjects the deduction to the 2% of adjusted gross income threshold. Previous estimates for the bill as introduced were -\$6, -\$7, and -\$8 million in 2005-06, 2006-07, and 2007-08, respectively.

In 2005, total contributions by California taxpayers to qualified tuition programs are projected at approximately \$2.1 billion. Previously for AB 3 (Blakeslee), total contributions had been projected at \$2.5 billion in 2005. Note that this is a revised projection made possible by new data regarding the composition of assets in qualified tuition programs.

It is estimated that contributions of nearly \$1.2 billion would be under the proposed deduction limitation of \$3,000/\$6,000 (depending upon filing status) per taxpayer. Contributions of \$1.2 billion are reduced to reflect only taxpayers who itemize deductions. It is estimated that 80% of the \$1.2 billion potentially could be deducted on tax returns, or \$960 million. However, as this is a state-only itemized deduction, it is anticipated that contributions deducted on tax returns for the 2005 taxable year would be only a third of the \$960 million, or approximately \$325 million. This means that two-thirds of taxpayers entitled to the deduction simply neglect to report it for various reasons in the initial tax year of the deduction.

Applying an average marginal tax rate of 6% to the amount of deductible contributions derives a revenue loss of \$19.5 million for the 2005 taxable year [$\$325 \text{ million} \times 6\% = \19.5 million]. Amounts of contributions deducted on tax returns are projected to increase each subsequent year due to growth in the number of qualified tuition program accounts and increased knowledge of the deduction.

Taxable year estimates were converted to cash-flow estimates above. Cash-flow estimates reflect the ability of some taxpayers to accelerate tax benefits by adjusting their estimated tax payments and/or tax withholding.

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